

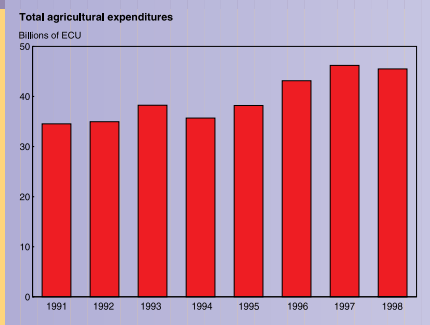
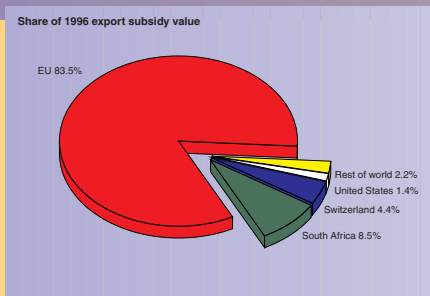
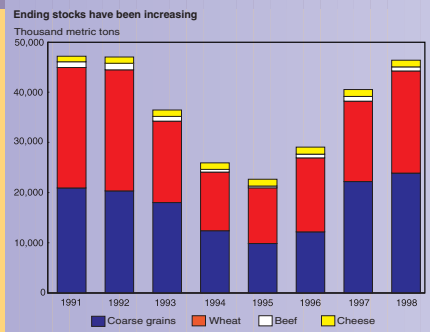
Agenda 2000: Will it live up to the hype?

Introduction

On March 26, 1999, the European Union (EU) adopted Agenda 2000, a 6-year (2000-2006) financial package that also includes reforms of arable crops (grains and oilseeds), dairy, and beef sectors. The reforms, which build on the 1992 Common Agricultural Policy (CAP) reforms will shift the EU further from price supports to direct payments.

Forces behind Agenda 2000

- ❖ **Enlargement:** The EU has accepted membership applications from 10 Central and Eastern European countries and Cyprus. Enlargement under the current CAP would be costly.
- ❖ **Surplus production:** High internal EU prices have stimulated agricultural production. Much of the surplus production is not exportable under the EU's World Trade Organization (WTO) export subsidy commitments, resulting in large government stocks.
- ❖ **WTO export subsidy commitments:** The EU accounts for nearly 84 percent of global expenditures on agricultural export subsidies. Their WTO commitments are beginning to become binding, and the Cairns Group is calling for total elimination of export subsidies in the upcoming "Millennium" round.
- ❖ **Current policies are too costly to maintain.**



Final agreement falls short of original proposal

Original 1997 proposal

- ❖ Agricultural budget set at a moving ceiling of 1.27 percent of GDP
- ❖ Mandatory land set-aside 0 percent
- ❖ 20-percent drop in cereal intervention price (24 euros/ton) in 1 year
- ❖ Increase in direct payments of 12 euros/ton to compensate for half of the price drop
- ❖ Direct payments for oilseeds to be aligned to cereal aid (28-percent drop) in 1 year
- ❖ 30-percent drop in beef support price (830 euros/ton) over 3 years
- ❖ Public beef intervention program abolished
- ❖ Increase in beef payments per animal
- ❖ 15-percent decrease in dairy support prices to be phased in over the Agenda 2000 period, starting in 2000
- ❖ New payment per dairy cow to be introduced in 2000
- ❖ Dairy quotas retained until 2006 and increased by 2 percent for young farmers and farmers in mountainous regions

Final agreement

- ❖ Agricultural budget fixed at 40.5 billion euros per year, in real terms
- ❖ Mandatory land set-aside 10 percent
- ❖ 15-percent drop in cereal intervention price (18 euros/ton) spread over 2 years
- ❖ Increase in direct payments of 9 euros/ton to compensate for half of price drop
- ❖ Direct payments for oilseeds to be aligned to cereal aid (33-percent drop) in 3 years
- ❖ 20-percent drop in beef support price (556 euros/ton) over 3 years
- ❖ Public beef intervention safety net retained at 1,560 euros/ton
- ❖ Increase in beef payments per animal
- ❖ 15-percent decrease in dairy support prices to be phased in over 3 years starting in 2005
- ❖ New payment per quantity of milk produced starting in 2005
- ❖ Dairy quotas will be retained until 2006 and increased by 2.4 percent: 1.2-percent increase to be allocated to "deficit" regions from 2000-2001; 1.2-percent increase to be spread over remaining regions from 2005 to 2008

Analysis

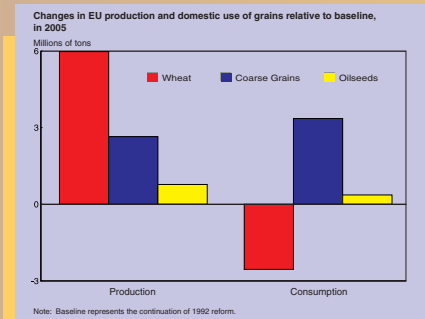
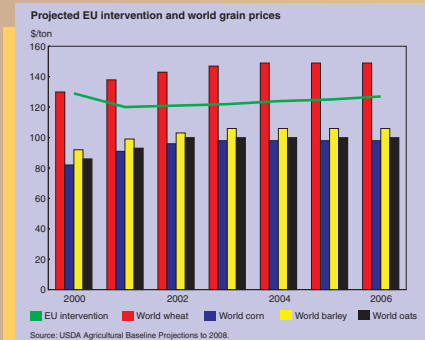
An analysis of the impact of Agenda 2000 on the European agricultural sector was completed using the ERS European Simulation Model (ESIM). ESIM is used in formulating the official USDA agricultural baseline projections for the EU. The Agenda 2000 scenario was compared with the USDA baseline projections, which do not impose Agenda 2000 and assume a 17.5-percent land set-aside.

Results

Most EU commodities will continue to be uncompetitive in world markets, as EU prices will continue to be above world market prices. Thus, EU producers will continue to be shielded from world market forces, the EU will continue to need subsidies to export most of their agricultural products, and the volume of their exports will be constrained by their WTO commitments. The U. S. farm sector will be largely unaffected by Agenda 2000. However, the world price of wheat could decline, slightly lowering U.S. production.

Arable crops

- ❖ Wheat will be competitive on world markets, therefore exports will no longer be constrained by WTO limits.
 - world wheat price becomes EU price floor, as it is higher than the intervention price.
- ❖ Coarse grains will not be competitive on world markets.
 - exports will be limited by WTO bounds
 - rye stocks, which are already high, will likely increase
 - feeding of coarse grains will increase as the price becomes more competitive relative to wheat
- ❖ Reduction in oilseed payment will slightly constrain increase in oilseed production.



Animal products

Dairy

- ❖ Production will rise to meet the increase in the quota.
 - ❖ EU will have to continue to subsidize dairy exports, as price cuts will not begin to be phased in until 2005. Even the 15-percent cut in dairy price that will be in place by 2008 may not make EU dairy competitive in world markets.
- ### Beef
- ❖ Production does not decline significantly.
 - Much of EU beef is a by-product of the dairy herd.
 - Direct payments will partially offset the price decline.
 - ❖ If the full price cut is transmitted to the consumer, consumption would increase, drawing down stocks.
 - ❖ Exports would still need to be subsidized.

Price reductions will not make dairy or beef competitive

Item	Average export subsidy, 1995-96 (ecu/ton)	Agenda 2000 price reductions (ecu/ton)	Percent of exports subsidized in 1995-96
Butter	1913	492	100
Skim milk powder	609	308	98
Cheese	860	N/A	86
Other dairy	688	N/A	86
Beef	1381	556	100

Source: EU 1995 and 1996 WTO export subsidy notifications.

What's ahead for CAP reform?

The EU has built in the ability to revise the Agenda 2000 reforms in the near future. Most commodities are required to undergo a mid-term review. If budgetary commitments are not being met, the EU will call for further reforms to be enacted. EU representatives have repeatedly stated that Agenda 2000 will be the EU's position in the upcoming WTO round on agriculture. However, if the EU does not expand the Agenda 2000 reforms, it is quite possible that Agenda 2000 will cause difficulties for U.S. and other negotiators in the WTO trade talks on export subsidies.